

**REPORT OF THE AUDIT OF THE  
MASON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2001**



**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable James L. "Buddy" Galenstein, Mason County Judge/Executive  
Honorable Frances Cotterill, Mason County Clerk  
Members of the Mason County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the County Clerk of Mason County, Kentucky for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Mason County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**AUDIT EXAMINATION OF THE  
MASON COUNTY CLERK**

**Calendar Year 2001**

**Berger & Ross, PLLC**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MASON COUNTY CLERK**

**Calendar Year 2001**

Berger & Ross, PLLC has completed the Mason County Clerk's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

Excess Fees increased by \$25,538 from the prior calendar year, resulting in excess fees of, \$77,476 as of December 31, 2001. Revenues increased by \$296,952 from the prior year and disbursements increased by \$268,683.

#### **Report Comment:**

- The County Clerk's Office Lacks Proper Segregation of Duties

#### **Deposits:**

The Clerk's deposits were insured and collateralized by bank securities or bonds.



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Government Finance Officers Association

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Honorable Frances Cotterill, Mason County Clerk  
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#### Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the Mason County Clerk of Mason County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
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Finance and Administration Cabinet  
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Honorable Karen Frances Cotterill, Mason County Clerk  
Members of the Mason County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following reportable condition:

- The County Clerk's Office Lacks Proper Segregation of Duties

Respectfully submitted,



Berger & Ross, PLLC

Audit fieldwork completed -  
July 29, 2002

MASON COUNTY  
FRANCES COTTERILL, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Grants:

Libraries and Archives Grant	\$	11,000
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State Payments:

State Fees for Services		5,890
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Fiscal Court

6,372

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	377,236
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Usage Tax		2,285,908
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Tangible Personal Property Tax		1,061,035
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Licenses

Fish and Game		6,820
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Marriage		7,694
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Occupational		200
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Deed Transfer Tax		36,000
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Delinquent Taxes		41,838		3,816,731
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	12,462
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Real Estate Mortgages		35,462
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Chattel Mortgages and Financing Statements		50,493
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Powers of Attorney		1,032
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Other Recordings		14,276		113,725
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Other:

Copywork	\$	4,435
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Miscellaneous		19,663
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Interest Earned		1,461
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Lien Release		3,507
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Candidate Filings		200		29,266
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Total Receipts

\$ 3,982,984

The accompanying notes are an integral part of the financial statement.

MASON COUNTY  
FRANCES COTTERILL, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 2001  
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	281,988	
Usage Tax		2,205,661	
Tangible Personal Property Tax		<u>373,802</u>	\$ 2,861,451

Licenses and Taxes:

Fish and Game	\$	5,876	
Delinquent Tax		5,259	
Legal Process Tax		<u>16,702</u>	27,837

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	88,209	
Delinquent Tax		5,134	
Deed Transfer Tax		34,200	
Occupational Licenses		<u>163</u>	127,706

Payments to Other Districts:

Tangible Personal Property Tax	\$	556,466	
Delinquent Tax		<u>22,056</u>	578,522

Payments to Sheriff

385

Payments to County Attorney

6,008

Operating Disbursements:

Personnel Services:

Deputies' Salaries			159,096
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Capital Outlay

Office Equipment			4,799
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Contracted Services

Software Management Lease			<u>17,004</u>
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Disbursements (Carried Forward) \$ 3,782,808

The accompanying notes are an integral part of the financial statement.

MASON COUNTY  
FRANCES COTTERILL, COUNTY CLERK  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
Calendar Year 2001  
(Continued)

Disbursements (Brought Forward)		\$	3,782,808
Other Charges-			
Conventions and Traveling	\$	1,241	
Dues		550	
Filing Fees		120	
Insurance & Bonds		3,280	
Libraries and Archives Grant		11,000	
Postage		458	
Refunds & Overpayments		15,940	
Supplies & Materials		604	
Miscellaneous		23,165	
			<u>56,358</u>
Total Disbursements		\$	<u>3,839,166</u>
Net Receipts		\$	143,818
Less: Statutory Maximum			<u>61,306</u>
Excess Fees		\$	82,512
Less: Expense Allowance	\$	3,600	
Less: Training Fringe Benefit		1,436	
			<u>5,036</u>
Excess Fees Due County for Calendar Year 2001		\$	77,476
Less: Payments to County Treasurer - February 11, 2002	\$	70,000	
Less: Payments to County Treasurer - July 29, 2002		7,476	
			<u>77,476</u>
Balance Due at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of the financial statement.

MASON COUNTY  
NOTES TO THE FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's Office to invest in the following, including but not limited to, obligations of the United States and of its agencies instrumentalities, obligations, and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months and 6.41 percent for the last six months of the calendar year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

MASON COUNTY  
FRANCES COTTERILL, COUNTY CLERK  
NOTES TO THE FINANCIAL STATEMENT  
December 31, 2001  
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name or provided surety bonds which named the County Clerk as beneficiary/obligee on the bonds.

Note 4. Grants

In September 1999, the Mason County Clerk was awarded a Library and Archives Grant in the amount of \$31,000. During calendar year 2001 the clerk received \$74 in interest earned, there were no additional grant monies received. The beginning balance as of January 1, 2001, is \$11,111 of which \$11,000 was expended, \$185 was transferred to the general account for office supplies, the account has been closed.

Note 5. Leases

The office of the County Clerk entered into a hardware lease agreement and software license agreement with Software Management, Inc., for the term December 1, 1999 through November 30, 2004. The agreement requires a monthly payment of \$1,417 and the total balance due on agreement is \$28,591 as of December 31, 2001.



COMMENT AND RECOMMENDATION



MASON COUNTY  
FRANCIS COTTERILL, COUNTY CLERK  
COMMENT AND RECOMMENDATION

Calendar Year 2001

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgement is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for a lack of adequate segregation of duties. However, we have judged the lack of an adequate segregation of duties as a reportable condition. We recommend that compensating controls be established over receipts and disbursements.

*County Clerk's Response:*

*No Response.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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Government Auditing Standards Board

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**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Mason County Clerk for the year ended December 31, 2001, and have issued our report thereon dated July 29, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Mason County Clerk's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mason County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable Conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The County Clerk's Office Lacks Proper Segregation of Duties

Report on Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the following reportable condition to be a material weakness.

- The County Clerk's Office Lacks Proper Segregation of Duties

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit Fieldwork completed –  
July 29, 2002

